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General Fund Revenue Transfers and Expenditure Shifts

Good morning. As I promised during my February 18, 2003 informal briefing with you, I have compiled a list of the General Fund revenue transfers and expenditure shifts from the past few fiscal years. An accounting of these revenue transfers and expenditure shifts shows they began in Fiscal Year 2001 in amounts as follows:

- \$134.7 million in Fiscal Year 2001
- \$533.2 million in Fiscal Year 2002
- \$378.7 million in Fiscal Year 2003

Some of the larger amounts taken from non-general fund resources include:

- \$241.0 million from the Economic Emergency Fund
- \$140.7 million from the Senior Living Trust Fund
- \$110.3 million from the Tobacco Settlement Endowment Fund

In total, approximately \$1 billion dollars has been taken from non-general fund resources during this three-year period. Approximately \$375 million, or 40 percent, represent borrowings that are required to be repaid by statute. The statutorily required repayments are as follows:

- \$222.7 million to the Economic Emergency Fund
- \$ 51.5 million to the Senior Living Trust Fund
- \$100.5 million to the Tobacco Settlement Endowment Fund

For amounts to be repaid, it is critical that a repayment plan be developed and adhered to. For non-general fund resources which are not going to be repaid, careful analysis should be conducted and should include (1) an evaluation of the assets and liabilities related to each of these non-general fund resources, and (2) an assessment of the impact to the services provided by these non-general fund resources if the amounts taken are not repaid. In addition, to the extent it is decided that any amounts taken from other funds will not be repaid, the funds impacted and the related dollar amounts should be reported. The taxpayers of Iowa deserve to be informed of all such intended actions that impact resources originally accumulated for other purposes, but that were later shifted to General Fund expenditures without providing for repayment.

I have great concern about these revenue transfers and expenditure shifts. My concern, however, is not only about the significance of the dollar amounts involved over the past three fiscal years, but the fact that these transfers and shifts have become the practice rather than the exception. Keep in mind, another \$130 million of the Senior Living Trust Fund is proposed to be used for Medicaid and an additional \$30 million to \$111 million in transfers are proposed under the Legislative and Governor budgets, respectively, for Fiscal Year 2004. This will make four consecutive years of significant revenue transfers and expenditure shifts. Iowa has faced some difficult economic times. One can argue that such transfers and shifts were necessary on a short-term basis. However, now is the time to eliminate our reliance on these limited-time resources, and develop and implement a long-term plan that brings spending in line with revenues. If we continue to delay, we are simply deferring some of the difficult spending decisions into future years. Good budgeting principles dictate that we stop this process of repeatedly taking from other funds.

State of Iowa
General Fund

Summary of Revenue Transfers and Expenditure Shifts
Fiscal Years 2001, 2002, and 2003
(Dollars in Millions)

	<u>Revenue Transfers</u>	<u>Expenditure Shifts</u>	<u>Total</u>
FY 2001	\$ 134.7	-	134.7
FY 2002	284.5	248.7	533.2
FY 2003	<u>97.1</u>	<u>281.6</u>	<u>378.7</u>
	<u>\$ 516.3</u>	<u>530.3</u>	<u>1,046.6</u>

Source: Legislative Fiscal Bureau

**State of Iowa
General Fund
Summary of Revenue Transfers and Expenditure Shifts
Fiscal Years 2001, 2002, and 2003
(Dollars in Millions)**

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Total</u>
Revenues Transferred or Expenditures Shifted:				
Economic Emergency Fund	\$ 66.1	149.9	25.0	241.0 (a)
Senior Living Trust Fund	-	74.0	66.7	140.7
Tobacco Settlement Endowment for Iowa's Health Account	-	64.5	45.8	110.3
Cash Reserve Fund	-	90.0	-	90.0 (b)
Tobacco Settlement Healthy Iowans Tobacco Trust	-	38.4	42.8	81.2
Tobacco Settlement Trust Fund	64.6	-	-	64.6
Underground Storage Tank Fund	-	18.0	30.0	48.0
Environment First Fund	-	17.6	21.9	39.5
Tobacco Settlement Restricted Capital Fund	-	7.3	28.9	36.2
Rebuild Iowa Infrastructure Fund	-	9.8	21.4	31.2
Regents Demutualization	-	-	30.0	30.0
School Infrastructure Fund	-	-	22.0	22.0
Reserve Fund Interest	-	15.6	5.2	20.8
Hospital Trust Fund	-	7.0	12.0	19.0
Prison Infrastructure Fund	-	6.2	7.6	13.8
Insurance Premium Tax	-	-	10.0	10.0
Recreation Trails Fund	-	5.5	-	5.5
Ground Water Protection Fund	-	4.2	1.0	5.2
Waste Tire Fund	-	3.0	1.6	4.6
Vehicle Depreciation Fund	-	2.2	2.2	4.4
Enhanced Court Collections	4.0	-	-	4.0
Terminal Liability Fund	-	3.5	-	3.5
DED - Strategic Investment Fund	-	3.0	-	3.0
Title Guarantee Fund	-	-	2.7	2.7
DED - Physical Infrastructure Assistance Fund	-	2.5	-	2.5
TRANS Notes Interest	-	2.3	-	2.3
Risk Pool	-	1.5	-	1.5
Ag - Alternative Drainage Assistance Fund	-	1.1	-	1.1
Jury and Witness Fund	-	-	1.0	1.0
Brucellosis and Tuberculosis Fund	-	1.0	-	1.0
DNR - Snowmobile Fund	-	1.0	-	1.0
Victims Compensation Fund	-	1.0	-	1.0
All Terrain Vehicle Fund	-	0.8	-	0.8
DED - Value Added Agriculture Fund	-	0.3	-	0.3
Aviation Assistance Fund	-	0.3	-	0.3
Other Fund Transfers	-	1.7	0.9	2.6
	<u>\$ 134.7</u>	<u>533.2</u>	<u>378.7</u>	<u>1,046.6</u>
(a) Economic Emergency Fund - deposit of \$222.7 needed to bring required balance to \$226 in FY 2003				(18.3)
(b) Cash Reserve Fund - required balance of \$226 in FY 2003 projected to be met				(90.0)
				<u>\$ 938.3</u>

Source: Legislative Fiscal Bureau

State of Iowa
General Fund

Summary by Repayment Requirements for Revenue Transfers/Expenditure Shifts
Fiscal Years 2001, 2002, and 2003
(Dollars in Millions)

Required to be repaid by statute:

Economic Emergency Fund (a)	\$ 222.7	
Senior Living Trust Fund (b)	51.5	
Tobacco Settlement Endowment for Iowa's Health Account (b)	<u>100.5</u>	
	374.7	<u>40%</u>
Others that need to be assessed based upon the impact by fund	<u>563.6</u>	<u>60%</u>
	<u>\$ 938.3</u>	

(a) Required by Iowa Code chapter 8.55

(b) Required by House File 2625, 2002 Second Extraordinary Session

Examples
Revenues Transfers/Expenditure Shifts

Underground Storage Tank Fund – Iowa Code chapters 455G & 424; Iowa Code section 423.24.

- Purpose – To protect the environment from pollution caused by leaking underground petroleum storage tanks.
- Source of Funds – The UST program receives funding through the Road Use Tax Fund and a per gallon fee from storage tank owners.

Waste Tire Fund – Iowa Code section 455D.11.

- Purpose – To eliminate non-compliant tire stockpiles and promote safe disposal of tires.
- Source of Funds – When a person transfers title on a motor vehicle, a \$5 transfer fee is charged at the county level and remitted to the state.

Vehicle Depreciation Fund – Iowa Code sections 18.115-18.121.

- Purpose – To ensure that the state can cover vehicle replacement expenditures for new or used vehicles.
- Source of Funds – Each agency is billed for depreciation based on vehicle fleet usage to accumulate funds needed to replace vehicles.